

University of Mississippi eGrove

Statements of Position

American Institute of Certified Public Accountants
(AICPA) Historical Collection

1990

Proposed revisions to Statements on responsibilities in tax practice (1988 revision) nos. 6 and 7, "knowledge of error" ;Statements on responsibilities in tax practice (1988 revision) nos. 6 and 7, "knowledge of error" Knowledge of error; Exposure draft (American Institute of Certified Public Accountants), 1990, Dec. 18

American Institute of Certified Public Accountants. Tax Executive Committee

American Institute of Certified Public Accountants. Responsibilities in Tax Practice Committee

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_sop

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Tax Executive Committee and American Institute of Certified Public Accountants. Responsibilities in Tax Practice Committee, "Proposed revisions to Statements on responsibilities in tax practice (1988 revision) nos. 6 and 7, "knowledge of error" ;Statements on responsibilities in tax practice (1988 revision) nos. 6 and 7, "knowledge of error" Knowledge of error; Exposure draft (American Institute of Certified Public Accountants), 1990, Dec. 18" (1990). *Statements of Position*. 546.

https://egrove.olemiss.edu/aicpa_sop/546

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements of Position by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

EXPOSURE DRAFT

PROPOSED REVISIONS TO STATEMENTS ON RESPONSIBILITIES IN TAX PRACTICE (1988 REVISION) NOS. 6 AND 7, "KNOWLEDGE OF ERROR"

DECEMBER 18, 1990

**Proposed by the Tax Executive Committee and
the Responsibilities in Tax Practice Committee,
American Institute of Certified Public Accountants**

**Comments should be received by February 15, 1991, and addressed to
Joseph W. Schneid, Technical Manager, Tax Division
AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775**

600583

SUMMARY

In August 1988, the AICPA Tax Division issued revised Statements on Responsibilities in Tax Practice (SRTPs). The primary purpose of these advisory statements on appropriate standards of tax practice is educational. SRTP (1988 Rev.) Nos. 6 and 7 included footnotes indicating that future statements would address (1) the effect of retroactive laws, regulations or court decisions and (2) erroneous accounting methods. The proposed revisions included here modify SRTP (1988 Rev.) Nos. 6 and 7 to address these issues.

This exposure draft defines an error as any position, omission, or method of accounting that, at the time the return is filed, fails to meet the standards set out in SRTP (1988 Rev.) No. 1. The definition of error also includes a position taken on a prior year's return that no longer meets these standards because of retroactive laws, judicial decisions, or administrative pronouncements.

These revisions were approved by both the Responsibilities in Tax Practice Committee and the Tax Executive Committee. After the termination of the comment period, the Responsibilities in Tax Practice Committee will consider what changes will be made to the standards in light of all comments received. The revision to SRTP Nos. 6 and 7 will again be put to the vote of the Responsibilities in Tax Practice and Tax Executive Committees and, if approved in each committee by a two-thirds majority, will become effective.

This exposure draft has been sent to —

- *Members of the AICPA Tax Division.*
 - *Members of the AICPA Board of Directors.*
 - *Members of the AICPA Council.*
 - *The chairman of the Professional Ethics Executive Committee.*
 - *State society committees on taxation, with information copies to state society presidents and executive directors.*
 - *The legal counsel of the AICPA.*
 - *The Commissioner of Internal Revenue (for information only).*
 - *The Director of Practice, Internal Revenue Service (for information only).*
-

December 18, 1990

Accompanying this letter is an exposure draft of revisions to Statements on Responsibilities in Tax Practice (SRTPs) Nos. 6 and 7. SRTP No. 6 provides guidance on the responsibility of a CPA who becomes aware of an error in a client's previously filed tax return or of the client's failure to file a required tax return. SRTP No. 7 provides guidance on the responsibility of a CPA who becomes aware of an error in a return that is the subject of an administrative proceeding.

The revisions address standards to be considered by a CPA when a client's tax return is affected by a law, regulation, or court decision having retroactive effect. The revisions also provide guidance in the cases involving use of an erroneous method of accounting.

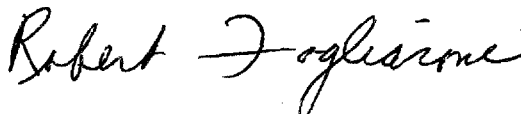
The purpose of this exposure draft is to solicit comments from members of the AICPA Tax Division, the AICPA Board of Directors, the AICPA Council, state societies, and other interested parties. Comments or suggestions on any aspect of this exposure draft will be appreciated. Please refer to the specific paragraph of the revision and include supporting reasons for any suggestions or comments.

Written comments on this exposure draft will become part of the public record of the AICPA Tax Division and will be available for public inspection at the offices of the AICPA after March 1, 1991, for one year. Comments on this exposure draft should be sent to Joseph W. Schneid, Technical Manager, AICPA Tax Division, 1211 Avenue of the Americas, New York, NY 10036-8775 in time to be received by February 15, 1991.

Sincerely,



Leonard Podolin
Chairman
Tax Executive Committee



Robert Faglarone
Chairman
Responsibilities in
Tax Practice Committee

Tax Executive Committee (1990–1991)

Leonard Podolin, *Chairman*
Victor E. Barton
Alan K. Bloom
William T. Diss
John F. Edgar, Jr.
Ellen J. Feaver
Arthur S. Hoffman
Al Kushinsky
Thomas P. Ochsenschlager
Lawrence F. Portnoy
Thomas E. Reardon

Wilburn C. Robinson
David J. Sibits
Deborah Walker
Donald C. Wiese

Donald H. Skadden, *Vice President*
Tax Division
William R. Stromsem, *Director*
Tax Division
Edward S. Karl, *Director*
Tax Division

Responsibilities in Tax Practice Committee (1990–1991)

Robert Fagliarone, *Chairman*
Bernie H. Beaver
James E. Connor
Stuart H. Deming
John C. Gardner
John W. Kerr, Jr.
Michael F. Klein, Jr.
Stanley M. Klein
John E. McDonald
Pete J. Medina

Patricia M. Nielsen
Robert A. Petersen
Walter M. Primoff
Jean L. Rothbarth
David R. Ward

Joseph W. Schneid,
Technical Manager
Tax Division

KNOWLEDGE OF ERROR: RETURN PREPARATION

Introduction

.01 This statement considers the responsibility of a CPA who becomes aware of an error in a client's previously filed tax return or of the client's failure to file a required tax return. As used herein, the term *error* includes any position, omission, or method of accounting that, at the time the return is filed, fails to meet the standards set out in SRTP (1988 Rev.) No. 1. The term *error* also includes a position taken on a prior year's return that no longer meets these standards due to legislation, judicial decisions, or administrative pronouncements having retroactive effect. However, an error does not include an item that has an insignificant effect on the client's tax liability.

.02 This statement applies whether or not the CPA prepared or signed the return that contains the error.

Statement

.03 The CPA should inform the client promptly upon becoming aware of an error in a previously filed return or upon becoming aware of a client's failure to file a required return. The CPA should recommend the measures to be taken. Such recommendation may be given orally. The CPA is not obligated to inform the Internal Revenue Service, and the CPA may not do so without the client's permission, except where required by law.

.04 If the CPA is requested to prepare the current year's return and the client has not taken appropriate action to correct an error in a prior year's return, the CPA should consider whether to withdraw from preparing the return and whether to continue a professional relationship with the client. If the CPA does prepare such current year's return, the CPA should take reasonable steps to ensure that the error is not repeated.

Explanation

.05 While performing services for a client, a CPA may become aware of an error in a previously filed return or may become aware that the client failed to file a required return. The CPA should advise the client of the error (as required by Treasury Department Circular 230) and the measures to be taken. It is the client's responsibility to decide whether to correct the error. In appropriate cases, particularly where it appears that the Internal Revenue Service might assert the charge of fraud or other criminal misconduct, the client should be advised to consult legal counsel before taking any action. In the event that the client does not correct an error, or agree to take the necessary steps to change from an erroneous method of accounting, the CPA should consider whether to continue a professional relationship with the client.¹

.06 If the CPA decides to continue a professional relationship with the client and is requested to prepare a tax return for a year subsequent to that in which the error occurred, then the CPA should take reasonable steps to ensure that the error is not repeated. If a CPA learns the client is using an erroneous method of accounting, when it is past the due date to request IRS permission to change to a method meeting the standards of SRTP (1988 Rev.) No. 1, the CPA may sign a return for the current year, providing the return includes appropriate disclosure of the use of the erroneous method.

.07 Whether an error has no more than an insignificant effect on the client's tax liability is left to the judgment of the individual CPA based on all the facts and circumstances known to the CPA. In judging whether an erroneous method of accounting has more than an insignificant effect, the CPA should consider the method's cumulative effect and its effect on the current year's return.

¹The CPA should consider consulting his or her own legal counsel before deciding upon recommendations to the client and whether to continue a professional relationship with the client. The potential of violating Rule of Conduct 301 (relating to the CPA's confidential client relationship), the Internal Revenue Code, and income tax regulations, or state laws on privileged communications and other considerations, may create a conflict between the CPA's interests and those of the client.

.08 Where the CPA becomes aware of the error during an engagement that does not involve tax return preparation, the responsibility of the CPA is to advise the client of the existence of the error and to recommend that the error be discussed with the client's tax return preparer.

Statement on Responsibilities in Tax Practice (1991 Rev.) No. 7
Issued _____ 1991

KNOWLEDGE OF ERROR: ADMINISTRATIVE PROCEEDINGS

Introduction

.01 This statement considers the responsibility of a CPA who becomes aware of an error in a return that is the subject of an administrative proceeding, such as an examination by the IRS or an appeals conference relating to a return or a claim for refund. As used herein, the term *error* includes any position, omission, or method of accounting that, at the time the return is filed, fails to meet the standards set out in SRTP (1988 Rev.) No. 1. The term *error* also includes a position taken on a prior year's return that no longer meets these standards due to legislation, judicial decisions, or administrative pronouncements having retroactive effect. However, an error does not include an item that has an insignificant effect on the client's tax liability.

.02 This statement applies whether or not the CPA prepared or signed the return that contains the error; it does not apply where a CPA has been engaged by legal counsel to provide assistance in a matter relating to the counsel's client.

Statement

.03 When the CPA is representing a client in an administrative proceeding with respect to a return that contains an error of which the CPA is aware, the CPA should inform the client promptly upon becoming aware of the error. The CPA should recommend the measures to be taken. Such recommendation may be given orally. The CPA is neither obligated to inform the Internal Revenue Service nor may the CPA do so without the client's permission, except where required by law.

.04 The CPA should request the client's agreement to disclose the error to the Internal Revenue Service. Lacking such agreement, the CPA should consider whether to withdraw from representing the client in the administrative proceeding and whether to continue a professional relationship with the client.

Explanation

.05 When the CPA is engaged to represent the client before the Internal Revenue Service in an administrative proceeding with respect to a return containing an error of which the CPA is aware, the CPA should advise the client to disclose the error to the Internal Revenue Service. It is the client's responsibility to decide whether to disclose the error. In appropriate cases, particularly where it appears that the Internal Revenue Service might assert the charge of fraud or other criminal misconduct, the client should be advised to consult legal counsel before taking any action. If the client refuses to disclose or permit disclosure of an error, the CPA should consider whether to withdraw from representing the client in the administrative proceeding and whether to continue a professional relationship with the client.¹

.06 Once disclosure is agreed upon, it should not be delayed to such a degree that the client or CPA might be considered to have failed to act in good faith or to have, in effect, provided misleading information. In any event, disclosure should be made before the conclusion of the administrative proceeding.

.07 Whether an error has an insignificant effect on the client's tax liability should be left to the judgment of the individual CPA based on all the facts and circumstances known to the CPA. In judging whether an erroneous method of accounting has more than an insignificant effect, the CPA should consider the method's cumulative effect and its effect on the return that is the subject of the administrative proceeding.

¹The CPA should consider consulting his or her own legal counsel before deciding upon recommendations to the client and whether to continue a professional relationship with the client. The potential of violating Rule of Conduct 301 (relating to the CPA's confidential client relationship), the Internal Revenue Code, and income tax regulations, or state laws on privileged communications and other considerations, may create a conflict between the CPA's interests and those of the client.